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SUBJECT: UKRAINE: KEEN TO PRESERVE STATUS QUO ON CLIMATE

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¶1. (SBU) Summary. Ukraine's position on climate change is to preserve the current Kyoto Protocol-based status quo. The country has reduced its greenhouse gas emissions by more than 50 percent since 1990 -- largely as a result of its post-Soviet industrial collapse -- and has become a beneficiary of the Kyoto carbon trading system. Despite its status as one of the world's largest polluters and least energy-efficient economies, Ukraine could increase emissions and still comfortably reach its stated emissions reduction target of 20% by 2020. Environmental concerns continue to be of secondary importance here, where climate change mechanisms are generally viewed as convenient tools to raise revenue and attract investment. End Summary.

#### INDUSTRIAL COLLAPSE LEADS TO EMISSION REDUCTION

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¶2. (U) Industrial collapse after the fall of the Soviet Union led to significant reductions in greenhouse gas emissions throughout the region. Ukraine's emissions totaled 926 million metric tons in 1990, but stood at just 436 million metric tons in 2007, a de facto 53 percent reduction.

¶3. (U) Ukraine signed the Kyoto Protocol as an Annex 1 country, committing to maintain greenhouse gas emissions at or below the 1990 baseline by 2012. This was essentially a political gesture, as even the most optimistic economic growth forecasts saw Ukraine emitting less than 60% of 1990 levels by 2012, and less than 80% by 2020, without any real emission reduction efforts.

#### 1990 BASELINE YEAR "NON-NEGOTIABLE"

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¶4. (SBU) Ukraine's official position for the post-Kyoto treaty negotiations is a greenhouse gas emission reduction of 20% by 2020, and 50% by 2050, from the 1990 level. One of Ukraine's chief climate negotiators privately described this position as "cynical", since a 20% reduction by 2020 could also be viewed as an increase of approximately 70% from the 2009 level.

¶5. (SBU) According to Ukraine's official position paper submitted to the UNFCCC, "imposing stricter obligations on Ukraine (would) not only render economic growth impossible but (would prevent the economic) recovery as well as the recovery of the population of Ukraine." In fact, while Ukraine may be ready to compromise on emission reduction numbers, its negotiators have been adamant that

the 1990 baseline year be preserved in any new agreement. The director of Ukraine's National Agency for Environmental Investments (NAEI) told us the 1990 baseline year was "non-negotiable" and that "Ukraine would not be part of a climate change agreement" that would peg emissions at a later year.

¶6. (SBU) According to Ukraine's climate negotiators and other observers, the benefits of keeping the 1990 baseline year are two-fold. First, it relieves pressure on Ukraine to strengthen its emission reduction efforts. Second, it gives Ukraine access to "excess" carbon credits that can be sold under the International Emission Trading scheme. This cap-and-trade mechanism has allowed countries that have not reached emission reduction targets under Kyoto to buy emission allowances from countries with excess. According to NAEI estimates, Ukraine will have approximately 1 billion excess Assigned Amount Units (AAUs), a figure equal to 1 billion metric tons of unused "hot air", before the Kyoto Protocol expires in 2012.

#### CARBON DEALS

¶7. (SBU) Ukraine has completed only one carbon trade deal, selling 30 million AAUs to Japan for roughly \$300 million (reftel). Two other deals, announced in May, to sell 150 million AAUs to two companies registered in Switzerland and New Zealand have not materialized. According to the NAEI, the firms were unable to prove that they had the financial means to complete the transactions. Analysts speculate, however, that potential investors had reservations about Ukraine's commitment to use carbon revenues to "green" its economy.

¶8. (SBU) Prodded about the size of the potential market for AAUs, the NAEI's director admitted that Ukraine would be lucky to sign

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similar deals before 2012. He predicted, however, that the continuation of the Kyoto-based cap-and-trade scheme under the new climate change agreement would significantly boost trade in AAUs, since it would remove market uncertainty about the future utility of such credits. Nonetheless, given the lack of a post-Kyoto treaty, Ukraine plans to "urgently" sell its surplus AAUs before 2012, according to one of Ukraine's climate change negotiators.

#### COMMITMENT TO CLIMATE CHANGE LACKING

¶9. (SBU) Despite Ukraine's official goal of reducing emissions "20 by 2020", Kyiv-based NGOs lamented the government's lack of commitment to fighting climate change. A representative from the National Ecological Center said Ukraine was looking solely at the financial benefits of a post-Kyoto deal but was not willing to acknowledge that "Ukraine is also responsible for climate change and should take action."

#### COMMENT

¶10. (SBU) Ukraine's civil society critics appear to be right. Despite lofty-sounding goals, Ukraine has thus far gained from laying low, letting more zealous Europeans take charge on negotiations over emissions targets and baseline dates. Ukraine will continue to push for the Kyoto-based status quo at Copenhagen. Meanwhile, Ukraine will lack incentives to lose its twin distinction of being one of the world's largest polluters and least energy-efficient countries.

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